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SUBJECT: PUTIN'S STATE OF THE FEDERATION ADDRESS: TOUTING  
ECONOMIC ACHIEVEMENTS; SUPPORTING "MORATORIUM" ON CFE

¶1. (SBU) Summary: President Putin's hour-plus address to the Federal Assembly on April 26 was - he emphasized - his last. To loud applause, he declared support for a "moratorium" on Russia's compliance with the CFE Treaty. He again condemned U.S. plans to deploy BMD systems in Europe. The bulk of Putin's remarks focused on economic initiatives. However, the election-year economic measures he highlighted represented more a repackaging of existing programs than, as it might have appeared, a torrent of new spending. Putin slammed efforts by unnamed "external forces" to interfere with Russia's internal affairs. He noted he had discussed a global digital library initiative with President Bush. End Summary.

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Last Speech as President  
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¶2. (U) Putin began his (one hour and twenty minute) annual State of the Federation speech by asking for a moment of silence to mark Yeltsin's death earlier in the week. After noting the difficult transition following the fall of the Soviet Union, he underlined that Russia was only at the beginning of the road to national revival, which would be marked not only by political stability and economic achievement, but by strengthened values. Putin stressed that this was the last of his eight annual addresses as President. The next address to the Federal Assembly, he said, would be given by a new head of government. He did not tip his hand as to his successor and stressed that it was too early to discuss his political legacy.

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CFE Moratorium and Missile Defense  
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¶3. (SBU) Putin drew sustained applause (the loudest of the address) when he announced that he considered it "expedient to declare a moratorium on Russia's implementation of the CFE Treaty until all NATO members, with no exception, ratify it and, as Russia does unilaterally today, implement it strictly." Putin justified the move by arguing that while Russia had ratified the treaty and complied with its requirements -- even when it disadvantaged Russia during the Chechen war -- Western countries had not. He suggested that Russia would consider withdrawal from CFE if no progress was made. He proposed "to discuss the problem in the NATO-Russia Council framework." Putin reiterated that U.S. missile defense deployment in Central Europe threatened European security and suggested that it be discussed in the OSCE. Unlike in last year's address, Putin did not emphasize military modernization.

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Duma Elections: Referendum on Russia's Course  
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¶4. (U) Turning to the upcoming Duma elections, Putin

stressed the role of political parties in maintaining political stability. He predicted that the December 2007 election would show the degree to which Russian civil society supports the current direction the country is taking, noting that implementation Russia's strategic goals depended on the makeup of the next parliament. The only significant institutional change Putin flagged was the introduction of 10 year local residency requirements for Federation Council seats.

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Democracy Promotion = "Dirty" Politics  
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¶5. (SBU) In harsh terms, Putin slammed efforts by unnamed "external forces" to interfere with Russia's internal affairs. Foreign entities used the "dirtiest" of political technologies to fuel ethnic and confessional conflict in order to keep Russia down and steal its riches. He said that NGOs played a role in the political process, but their activities needed to be appropriately channeled through institutions like the Public Chamber. Putin called on Parliament to pass legislation countering extremism without delay. He emphasized the role of the Russian language and culture in encouraging patriotism and family values. He noted he had recently spoken with President Bush about a "world digital library."

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Highlighting Economic Accomplishments  
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¶6. (SBU) Touting Russia's newfound economic strength, Putin announced that Russia has "not only completely overcome its long period of declining production, but has become one of the ten largest world economies." He advocated a transition toward a more efficient, innovative economy through

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infrastructure development, more efficient use of natural resources, development of nanotechnologies, stronger support for small business, poverty reduction, and expansion of the middle class. He named electric power development a priority, calling for greater use of nuclear, hydro and coal, and emphasized the need for better transportation infrastructure, particularly airports and seaports. In a nod to regional dissatisfaction with federal funding, Putin announced plans to transfer 153 billion rubles (about \$6 billion) to the regional governments.

¶7. (SBU) As expected in this election year, Putin characterized as successful efforts under the National Priority Projects to invest in human capital. His only criticism was to call for improved management, particularly stronger financial oversight. He highlighted the housing project, setting a goal of building one square meter per capita annually to better meet demand. Expressing particular concern over the appalling state of the housing utilities sector, Putin argued that part of the revenue the state receives from the payment of Yukos debt should go to improving utilities. Furthering his populist theme, Putin announced that pensions would increase by at least 65% over the next two years and affirmed that the retirement age would not be raised anytime soon. Also, for the first time he suggested splitting the Stabilization Fund into three funds: the Reserve, Future Generation, and Social Program Funds.

Foreign Policy: Rote Speech  
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¶8. (SBU) Putin was at his least animated in discussing Russia's foreign policy aims other than defense. Noting Russia's economic and energy interests in the area of the former Soviet Union, he highlighted the integration function of the Eurasian Economic Community and the Shanghai Cooperation Organization. After a perfunctory nod to the Russia-Belarus Union State, Putin stressed the economic potential of cooperation with Russia's European partners.

